



9th Global Alliance for Banking on Values (GABV) Conference

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Address by Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank

*Rt. Honorable Prime Minister Mr. Pushpa Kamal Dahal,
Chairman of Global Alliance for Banking on Values and CEO of Triodos Bank Mr. Peter Blom,
Executive Director of GABV Dr. Marcos Eguiguren,
Chairman of NMB Bank Mr. Pawan Kumar Golyan,
CEO of NMB Bank Mr. Upendra Poudyal,
My friends from the financial community in Nepal
Media friends,
Distinguished Guests from Nepal and Abroad
Ladies and Gentlemen,*

It gives me immense pleasure to address this 9th Global Alliance for Banking on Values (GABV) Conference, being held here in Kathmandu. I would like to thank NMB Bank and other members of the GABV for providing me this privilege.

I believe the theme of this Conference entitled "Shifting the Financial Paradigm - Courage to Act Together" encompasses the work of the Global Alliance targeted at changing the world of finances to put people before profit. In this respect, I appreciate this laudable effort of the members of GABV who are focusing on strengthening local communities and entrepreneurs to become self-reliant.

Ladies and Gentlemen,

The challenge of building a sustainable financial system is to develop one which is a servant of the real economy, not its master, and which enables the sustainable intergenerational increase of common welfare and environmental resilience. The ultimate aim of the financial system should be to cater to people's needs. There may be differences in values with respect to geography and time, but human welfare will always remain the principal value across different cultures.

It was in the aftermath of the global financial crisis that a number of sustainability-focused or values-based banks had exhibited the ability to provide steady risk-adjusted financial returns by focusing on the real economy, and acting as financial intermediaries dedicated to supporting economic, social and environmental impact. These banks that put people before profit have gained credibility and recognition and are growing in strength and number. These banking institutions are united by the Principles of Sustainable Banking that are based on certain values including sustainability, transparency, diversity, fairness and inclusion. In this banking model, profit is a result of sustaining and growing value in the real economy and healthy communities, not an end goal.

Ladies and Gentlemen,

Allow me now to share with you a few words on financial sector development of Nepal which would be of interest especially to our foreign delegates.

Nepal's modern financial system has evolved through 80 years. Up until 1983, the financial sector was highly controlled. In the mid-1980s, the country embarked on a financial liberalization drive with a view to developing a diversified and competitive financial sector. A major structural change in financial sector policies, regulations and institutional developments was witnessed. The Government emphasized the role of the private sector for the investment in the financial sector. Subsequently, the door was opened for foreign banks to open Joint Venture Banks in Nepal.

Due to the adoption of financial liberalization policy, a proliferation in number of banks and financial institutions (BFIs) was observed in Nepal in the earlier decades. However, the growth has moderated as NRB imposed moratorium on licensing of BFIs. For the last two years, banking system of Nepal is experiencing an encouraging restructuring and consolidation, particularly through the merger and acquisition. NRB has taken consolidation in the financial sector as an important reform measure for building strong and competitive financial environment.

As of mid-January 2017, the number of commercial banks stood at 28 while the number of development banks aggregated 57. Similarly, there were 36 finance companies and 48 microfinance institutions. Moreover, there were 15 cooperatives permitted by NRB to conduct limited banking activities as well as 25 financial NGOs also licensed by NRB to undertake micro finance activities in Nepal.

Ladies and Gentlemen,

Nepal Rastra Bank and the Government of Nepal have been according due priority to values-based banking as demonstrated by their focus on microfinance which gained momentum in the 1990s as an instrumental tool for social mobilization and poverty reduction. Consequently, some policy models were introduced including the Grameen Bank Model, the Wholesale Micro Finance Model, the Directed Lending Model, Project-Based Micro Credit Model, and the FINGOs and the SACCOs Model.

I would now like to take your few minutes to highlight a couple of recent policy provisions which show that both the Government and NRB have given a clear message to banks and financial institutions of the country to focus more on the well-being of the people, especially those residing in the rural areas, and not just on profit.

First of all, acknowledging the significance of financial inclusion for Nepal, the Government through the budget for 2016/17 provided some policy directions. These included expansion of banking and financial services in the rural areas, promotion of mobile banking and branchless banking, continuation of government led programs such as Rural Self Reliance Fund (RSRF), Poverty Alleviation Fund (PAF), Youth and Small Entrepreneur Self-employment Fund, and the implementation of subsidized agricultural lending program.

Secondly, a policy to extend concessional housing loan to earthquake victims was introduced immediately after the earthquake on 25 April 2015. Regulatory relief measures were also introduced to boost the credit disbursement from the BFIs and bring dynamism in economic activity in the aftermath of the disastrous earthquake.

Thirdly, the NRB provides direct financial support to the banks and financial institutions where the number of banking units is low.

Fourthly, in its *Monetary Policy of 2015/16*, the NRB made a provision of special refinance facility at 1 percent interest with the aim of encouraging BFIs (A, B, and C class) to extend loans to agriculture and small business-based income generating activities in poverty stricken areas of the country.

Fifthly, under the Deprived Sector Credit Program, presently commercial banks, development banks and finance companies are required to lend at least 5.0 percent, 4.5 percent and 4.0 percent of their outstanding loans respectively to deprived sector.

Another provision exists where commercial banks are required to allocate 20 percent of total credit to the specified productive sector such as agriculture, energy, tourism, and small and cottage industries. Likewise, development banks and finance companies need to lend 15 percent and 10 percent respectively to the specified productive sector.

Likewise, BFIs are required to allocate at least 1 percent of their profit to activities relating to corporate social responsibility. In a similar way, NRB has instructed the MFIs to develop a separate Client Protection Fund for the institutional development and welfare of the borrowers in which they are required to allocate at least 1 percent of their net profits.

Similarly, the *Nepal Financial Inclusion Roadmap (2017–2022)*, released on July 2016, is expected to guide future initiatives around the immediate priorities for financial inclusion.

Last, but not the least, the *Financial Sector Development Strategy (FSDS)*, covering the period from 2016/17 to 2020/21, has been recently approved by the Government. The main objective of the strategy is to have a competitive, efficient, stable and inclusive financial sector that contributes to broad based economic growth.

The foregoing measures illustrate that NRB has been giving a clear message to the financial institutions of this country to focus on values-based banking; however, this requires a collaborative approach as their successful implementation is governed by the cooperation provided by the relevant stakeholders.

Ladies and Gentlemen,

Let me conclude.

Banks need to move forward on a new, actionable, shared value approach. They have to revamp their role within society by devising financial products and services to address social and environmental needs, extending existing business and capturing new lines of business in areas that are currently considered "unbankable." I urge the financial institutions to support local communities by investing in projects so that they could become self-reliant. For this, they can team up with a network of trusted partners to foster knowledge, stimulate activity, and catalyze financial innovation.

The NRB's challenge is to build up a financial system that is supportive of growth, and dynamic enough to fulfill the evolving demands of a real economy. In this respect, I believe this Conference would be very fruitful for all of us as we will be able to draw concrete lessons from experiences of values-based banks who are working for the local communities, who are not guided by profit and who are "Banking on Values."

With this note, I would like to express my best wishes for the successful conclusion of this Conference!

Thank you for your kind attention!